

Message Text

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E.O. 11652: GDS

TAGS: ECON, EFIN, CG

SUBJECT: ZAIRE'S FINANCIAL PROBLEMS: IMF VIEW

REF: KINSHASA 0770

1. SUMMARY. IMF OFFICIALS HAVE CONFIRMED SALE OF ZAIRE'S
GOLD RESERVES. THEY REPORT GOZ HAS NOT SOUGHT FUND'S

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ASSISTANCE AND THEY EXPRESS PESSIMISM ABOUT MOBUTU'S

READINESS ACCEPT STABILIZATION PROGRAM WHICH WOULD HAVE TO COME WITH IT. THEY ALSO SEE ZAIRE FACING FOREIGN EXCHANGE CRUNCH WHICH CANNOT BE MET BY IMF ALONE. FUND IS NEVERTHELESS DISPATCHING SENIOR ADVISOR TO KINSHASA FOR CONSULTATIONS INDEPENDENT OF ARTICLE 14 MISSION. WORLD BANK'S ECONOMIST FOR ZAIRE IS MUCH MORE OPTIMISTIC ABOUT COUNTRY'S ECONOMIC SITUATION AND BELIEVES IMPORT-RESTRICTION PROGRAM PLUS IMF ASSISTANCE WILL BE SUFFICIENT TO REDRESS PAYMENTS SITUATION. END SUMMARY.

2. ON FEB. 3 AF/C OFFICERS DISCUSSED ZAIRE'S FINANCIAL PROBLEMS AND BROADER ECONOMIC SITUATION WITH IMF OFFICIALS JAN MLADEK, DIRECTOR CENTRAL BANKING SERVICES; L. DINI, SENIOR ADVISOR AFRICA DEPARTMENT; AND M. RUSSO, DIVISION CHIEF FOR EQUATORIAL AFRICA. MLADEK AND DINI HAVE BEEN INVOLVED IN FUND'S DEALINGS WITH ZAIRE SINCE INDEPENDENCE. RUSSO WILL LEAD FIVE-MAN REGULAR ARTICLE 14 CONSULTATION MISSION LEAVING FOR ZAIRE NEXT WEEK. DINI PLANS VISIT ZAIRE TOWARD END OF MISSION BUT NOT AS PART OF IT.

3. FUND OFFICIALS CONFIRMED SALE BY ZAIRE OF ONE MILLION OUNCES OF GOLD RESERVES IN DECEMBER TO REPAY NOVEMBER LOANS FROM BIS FOR WHICH GOLD HAD BEEN USED AS COLLATERAL. LOAN PROCEEDS REPORTEDLY ALREADY SPENT. FUND OFFICIALS ALSO SAID THEY HAD RELIABLE REPORT THAT, SINCE BEGINNING OF YEAR, REMAINING GOLD RESERVES (400,000 OUNCES) HAVE ALSO BEEN SOLD.

4. ACCORDING TO MLADEK, FUND HAS NOT BEEN APPROACHED BY ZAIRE FOR HELP IN CURRENT FINANCIAL CRISIS; TO THE CONTRARY, "MOBUTU HAS BEEN AVOIDING US". ALL THREE FUND OFFICIALS EXPRESSED DEEP CONCERN ABOUT ZAIRE'S FINANCIAL PLIGHT AND PESSIMISM ABOUT CHANCES FOR IMF-ASSISTED RESCUE. FOLLOWING IS SUMMARY OF SITUATION AS THEY PICTURED IT:

A. HAVING MANAGED TO RUN DOWN RESERVES IN COURSE OF YEAR OF UNPRECEDENTED EXPORT EARNINGS AND HEAVY EURODOLLAR BORROWING, ZAIRE NOW FACES YEAR OF SHARPLY REDUCED EXPORT EARNINGS (PERHAPS 400 MILLION DOLLARS
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LESS THAN LAST YEAR) WITH NO RESERVES CUSHION AND WITH LITTLE PROSPECT FOR NEW BORROWING. PROMISED CURTAILMENT OF IMPORTS, WITHOUT STRICT CONTROL OF MONEY SUPPLY, WILL ONLY ADD TO ALREADY SEVERE INFLATION. BUT PROSPECTS FOR DEALING WITH THE CAUSES OF EXCESSIVE MONEY-SUPPLY GROWTH--A RUNAWAY GOVERNMENT BUDGET AND LOANS TO GROWING NUMBER OF INEFFICIENT PARASTATAL ENTERPRISES--ARE DIM. CREATION OF NEW STATE ENTERPRISES PURSUANT TO

"RADICALIZATION" PROGRAM WILL ONLY COMPOUND THE PROBLEM. (FUND OFFICIALS DID ACKNOWLEDGE AS OFFSETTING FACTOR THE ELIMINATION OF PETROZAIRE OIL-PRICE SUBSIDY, WHICH AF/C OFFICERS SUGGESTED MAY HAVE COST ZAIRE TREASURY AS MUCH AS 40 MILLION DOLLARS LAST YEAR BEFORE LOCAL PRICES WERE ADJUSTED TO WORLD LEVEL.)

B. GIVEN THIS SITUATION, 60 MILLION DOLLARS OR SO WHICH IMF COULD MAKE AVAILABLE TO ZAIRE QUICKLY (I.E., REMAINING PORTION OF GOLD TRANCHE PLUS FIRST CREDIT TRANCHE) WOULD BE LITTLE HELP. EVEN DOUBLING THIS BY EXTENDING FULL AMOUNT POSSIBLE UNDER ZAIRE'S QUOTA WOULD NOT IN ITSELF BE SUFFICIENT TO BAIL THE COUNTRY OUT OF ITS PRESENT SITUATION. SUPPLEMENTARY ASSISTANCE WOULD BE REQUIRED.

C. MOREOVER, IT IS DOUBTFUL THAT MOBUTU IS READY TO AGREE TO THE KIND OF STABILIZATION PROGRAM UPON WHICH EXTENSION OF SECOND AND THIRD CREDIT TRANCHES WOULD BE CONDITIONED. WHEN HE AGREED TO IMF PROGRAM IN 1967, MOBUTU HAD INCENTIVES OF CLEANING UP MESS OF HIS PREDECESSORS. TODAY MESS IS HIS OWN. IN 1967 HE WAS LESS SURE OF HIS GRIP AND THERE WERE PEOPLE LIKE NDELE WITH BOTH ECONOMIC SENSE AND POLITICAL CLOUT TO PROSELYTIZE HIM. TODAY HE LISTENS TO NO ONE. SAMBWA'S IS THE ONLY VOICE OF FINANCIAL REASON, AND HE IS A TECHNICIAN WHOSE INFLUENCE HAS BEEN HURT BY PAST OPPOSITION TO MOBUTU POLICIES (E.G., TO 1973 ZAIRIANIZATION MEASURES). IT IS DOUBTFUL ALSO WHETHER IT IS POLITICALLY POSSIBLE FOR MOBUTU TO SEVERELY CUT BACK THE FLOW OF LARGESSE WITH WHICH HE HAS OILED HIS POLITICAL SYSTEM; CAN THIS ELEMENT OF "RADICALIZATION" PROGRAM BE CARRIED THROUGH? FINALLY, ECONOMIC CONDITIONS FOR LAUNCHING STABILIZATION
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PROGRAM ARE MUCH LESS FAVORABLE THAN THEY WERE IN 1967, WHEN BUDGET HAD ALREADY BEEN BROUGHT UNDER CONTROL BEFORE FUND PROGRAM LAUNCHED.

5. AF/C OFFICERS SAID MOBUTU DID SEEM FINALLY TO BE FOCUSING ON ZAIRE'S FINANCIAL PLIGHT AND TO BE LISTENING TO SAMBWA AND COMPANY. THEY SUGGESTED THAT, HAVING SOUGHT FINANCIAL RELIEF WITHOUT STRINGS ATTACHED FROM HIS NEW ARAB FRIENDS AND HAVING FAILED TO COME UP WITH MUCH, HE MIGHT NOW BE MORE READY TO TURN TO THE IMF. THE POSSIBILITY OF RELIEF IN THE FORM OF A LARGE-SCALE COMMODITY AID PROGRAM FROM THE CHINESE WAS DISCUSSED AND JUDGED UNLIKELY.

6. ASKED WHETHER THEY THOUGHT IT WOULD BE USEFUL FOR

AMBASSADOR HINTON TO RECOMMEND TO GOZ THAT IT SEEK IMF ASSISTANCE, FUND OFFICIALS ADVISED CAUTION. THEY SAID THAT, WHILE LOW-KEY EFFORTS MIGHT BE USEFUL, THEY FEARED HARD SELL WOULD STIFFEN MOBUTU'S RESISTANCE AND COULD ALSO CREATE FALSE EXPECTATIONS ABOUT WHAT IMF COULD DO FOR ZAIRE. RUSSO SAID HE WOULD CONTACT HINTON DURING COURSE OF MISSION'S VISIT TO KINSHASA.

7. BEYOND PESSIMISTIC ECONOMIC AND POLITICAL PERCEPTIONS VOICED BY HIS COLLEAGUES, MLADEK EXPRESSED SERIOUS DOUBT ABOUT ABILITY OF MOBUTU TO STEER ZAIRE TO ECONOMIC SAFE HARBOR AND SEEMED PREOCCUPIED, PERHAPS WISHFULLY, WITH IDEA MOBUTU MAY BE LOSING HIS POLITICAL GRIP. ALSO SUGGESTED THAT THOSE WHO WISH MOVE COUNTRY TO LEFT MAY BE GIVING HIM ADVICE INTENDED TO PRODUCE ECONOMIC DISRUPTION. AF/C OFFICERS SAID THEY SAW NO EVIDENCE MOBUTU LOSING POLITICAL CONTROL AND NO ALTERNATIVE TO HIS LEADERSHIP.

8. COMMENT: DESPITE THEIR PESSIMISTIC VIEW, IMF OFFICIALS' VERY PREOCCUPATION WITH ZAIRE'S PLIGHT AND FACT THEY INITIATED CONTACT WITH DEPARTMENT SUGGEST THEY ARE STANDING IN WINGS WAITING TO BE CALLED ON STAGE. SUSPECT DINI'S VISIT, ABOUT WHICH THEY WERE STUDIOUSLY VAGUE, IS PLANNED AS RECONNOITERING MISSION QUITE DISTINCT FROM NORMAL ARTICLE 14 CONSULTATION.

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9. ON FEBRUARY 3 ALSO, MEMBERS EXIMBANK STAFF MET WITH IBRD ECONOMIST FOR ZAIRE ATILA SOMNEZ. SOMNEZ, MUCH MORE BULLISH ON ZAIRE THAN FUND STAFF, PREDICTED GOZ WILL BE ABLE COME THROUGH EXCHANGE PINCH WITH IMPORT-RESTRICTION PROGRAM AND IMF HELP AND PORTRAYED LONGER-RANGE ECONOMIC PROSPECTS AS GOOD. HE SAID IBRD IS NOT CONSIDERING PROGRAM LOAN TO ZAIRE AND HE ENVISAGED NO NEED FOR ONE. KISSINGER UNQTE INGERSOLL

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